Econ 440 – Monetary Theory and Policy
Liang Wang

Lectures: Tuesday and Thursday 10:30-11:45 am, WEB 102
Office Hours: Tuesday and Thursday 1:15-3:00 p.m. or by appointment
Office: Saunders Hall 509
Email Address: liang.wang@hawaii.edu

Course Description
This course focuses on monetary and macroeconomic theory and policy. Students will analyze clear, explicit, and internally consistent models of the monetary economy, and develop critical thinking skills as applied to monetary economics. This allows students to explore the linkage between assumptions underlying the models and the behavior of these model economies, and apply the insights from the models to understand and evaluate government policies in real life. This course also covers institutional knowledge of banking, central banks, monetary policy, and international monetary system, and contemporary issues such as the recent financial crisis. By the end of the semester, students are also expected to understand the causes of inflation and its relation to output, the roles of commercial banks and central banks, and the functions and conduct of different monetary policy tools.

Prerequisite
Intermediate Microeconomics (Econ301) or Intermediate Macroeconomics (Econ300)

Class Resources
The following course materials are available from the bookstore.


Required Readings
Besides textbook chapters, all chapter appendices are also required unless students are told otherwise. Additional readings may be assigned to accompany certain chapters. Class handouts, if there are any, are required reading. Although we will not have enough time to cover all the assigned readings in class, students are responsible for all
the materials in those readings. Relevant text chapters or assigned readings for each class meeting should be read prior to class and then carefully reviewed after class.

**Grading Schedule**
There are two methods used to calculate the course grade; we will choose for you at the end of the semester whichever method gives you the higher letter grade. Method I is designed to reward students that show consistent progress throughout the course, whereas Method II rewards those students that show improvement over the semester. The plus/minus system will be used for assigning letter grades. I reserve the right to make any changes to class policy and schedule. You will be informed of any changes that occur.

<table>
<thead>
<tr>
<th>Method I</th>
<th>Method II</th>
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<tbody>
<tr>
<td>Homework</td>
<td>25%</td>
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<tr>
<td>Midterm</td>
<td>35%</td>
</tr>
<tr>
<td>Final Exam</td>
<td>40%</td>
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**Homework**
Multiple homework assignments will be given throughout the entire semester with specific deadlines. Homework submitted after the due day will not be accepted. While students are encouraged to study with each other, everyone is required to complete his/her homework individually.

**Exams**
There will be one midterm and one final exam for this class. You must bring a valid photo ID card to each exam. There will be no make-up exams for the midterm or the final, and both exams must be taken on the designated dates. The only valid reason to miss an exam will be a compelling medical emergency with documentations from your health care professional, in which case and only in this case a makeup exam will be given.

- The midterm exam will be given on TBA.
- The final exam will be given on December 19th, Thursday 9:45–11:45 am.¹

**Academic Integrity**
Any form of cheating and plagiarism will be strictly prohibited. Failure to comply with University of Hawaii guidelines of academic integrity may result in a failing

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¹ The time and date of the final exam is subject to any changes based on the University Final Exam Schedule posted online at [http://manoa.hawaii.edu/records/final_exam/fall_2013.html](http://manoa.hawaii.edu/records/final_exam/fall_2013.html).
grade in the course and further action taken by the university. Please review carefully
the following page on student conduct code. Do not attempt to test this guideline.

**Class Participation and Attendance**
Class will be conducted in an open discussion/lecture style. Students are expected to
prepare in advance and participate actively in class discussions. While attendance will
not be taken in class, it is mandatory to attend lectures. If you miss any
announcements, such as homework assignments, class administrative changes, etc.,
there is no recourse unless it is a medical emergency with documents from your health
care professional. If you miss any class announcements due to tardiness or absence,
you will be responsible for obtaining that information from a classmate.

**Students with Disabilities**
If you feel you need reasonable accommodations because of the impact of a disability,
please (1) contact the KOKUA Program (V/T) at 956-7511 or 956-7612 in room 013
of the QLCSS, and (2) speak with me privately to discuss your specific needs. I will
be happy to work with you and the KOKUA Program to meet your access needs
related to your documented disability.

**Whom to Contact**
- Logistical issues regarding registration or withdrawal: contact the main office
  of the economics department. Visit Saunders Hall 524 or call (808) 956-8496
  and seek help from one of the staffs.
- Logistical issues regarding the *Laulima* site go to:
  https://laulima.hawaii.edu/portal/help/main

**Course Schedule**

<table>
<thead>
<tr>
<th>Topics Discussed</th>
<th>Text Chapter</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Part I: Money</strong></td>
<td></td>
</tr>
<tr>
<td>1. What is Money? Why Study Money, Banking, and</td>
<td>Mishkin Ch 1, 2</td>
</tr>
<tr>
<td>Monetary Policy?</td>
<td></td>
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<tr>
<td>2. A Simple Model of Money</td>
<td>Mishkin Ch 0;</td>
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<tr>
<td><em>Feasible allocations vs. decentralized solutions</em></td>
<td>Champ, Freeman,</td>
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<tr>
<td><em>The Golden rule</em></td>
<td>and Haslag (CFH)</td>
</tr>
<tr>
<td><em>Growing population</em></td>
<td>Ch 1</td>
</tr>
<tr>
<td>3. Barter and Commodity Money Exchange</td>
<td>Mishkin Ch 0; CFH</td>
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</tbody>
</table>
The inefficiency of barter
The inefficiency of commodity money

4. Inflation
Growing money supply
Seigniorage

5. International Monetary Systems
Foreign exchange market
Fixed vs. flexible exchange rates
International financial system

Part II: Banking

6. Capital
Money and capital
Arbitrage – the equality of risk adjusted returns
Money, capital, and private debt

7. Liquidity and Financial Intermediation
The Fisher equation and expected inflation
Arbitrage and banking
Bank monitoring and intermediation

8. Financial Crises and the Subprime Meltdown

Part III: Central Banking and Monetary Policy

9. Central Banks and the Money Supply
Reserve requirements
Definitions of money and the money supply process
The federal reserve system

10. Monetary Policy
Open market operations
The conduct of monetary policy
The correlation between money and output